



JOHNS HOPKINS
BLOOMBERG SCHOOL
of PUBLIC HEALTH

Healthcare Costs: Options for State Policymakers

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Thank you to Amber Wilink, Gerard Anderson, Aditi Sen, Yang Wang, and Mark Meiselbach

Our Project

- ▶ Objective: Faculty at Johns Hopkins are working with states to lower health care prices in the private sector
- Analytic component:
 - compare private sector and Medicare prices,
 - explore price variation across services, communities, settings, and consumers
 - examine out-of-network billing
- Policy component:
 - provide examples of strategies employed in other states
 - support development of evidence based legislation

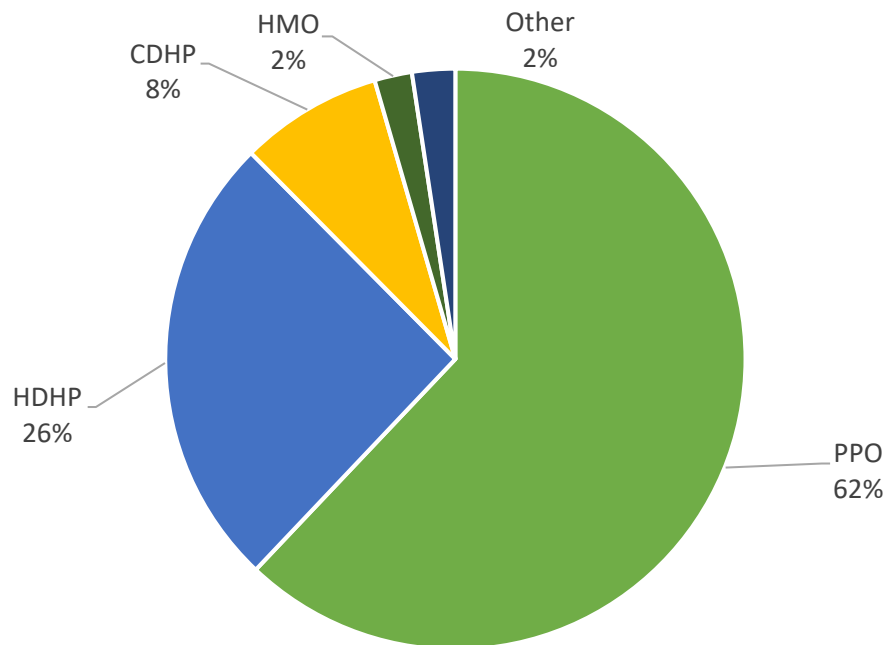
Our Presentation Today

- ▶ Update the Task Force on our research on prices
 - ▶ How does the difference between Medicare and private prices in Utah compare with other states, and, how accurately does our data (Truven Marketscan) represent the Utah Market?
 - ▶ An update on hospital financial margins in Utah
 - ▶ Can government help large employers gain a stronger bargaining position when negotiating prices?
- ▶ Present new results examining out-of-network (OON) billing
 - ▶ This will be later in the agenda

Part 1: Marketscan Data Update

MarketScan Utah enrollment, 2016

Total N	203,595
Female	50%
Mean age	38
Data source: Employer	85%



Private prices vs Medicare (claims-based) prices [2016]

	UT			NV			AZ		
	Private (\$)	Medicare (\$)	Ratio	Private (\$)	Medicare (\$)	Ratio	Private (\$)	Medicare (\$)	Ratio
Hip Replacement	34,477	14,341	2.40	34,886	14,668	2.38	31,802	14,161	2.25
Knee Replacement	33,002	14,341	2.30	35,889	14,668	2.45	32,522	14,161	2.30
Inpatient basket	7,819	4,034	1.94	8,002	3,914	2.04	8,025	3,893	2.06

State characteristics

	UT	NV	AZ
% MSAs with highly concentrated insurance market	20	33	67
% MSAs with highly concentrated hospital market	80	67	67
% Population uninsured	9	11	10
PCPs per 1000 population	0.50	0.50	0.56
Specialists per 1000 population	0.68	0.68	0.82
Hospital beds per 1000 population	2.17	2.67	2.35

Part 2: Hospital Financial Update

Utah Hospitals' Financial Performance

- ▶ We used 2017 Medicare cost reports to examine the operational profitability and financial viability of Utah hospitals
- ▶ Operational profitability = Operating Margin
= Operating net income / Net patient revenue
How much money do hospitals make from patient services
- ▶ Financial viability = Overall Margin
= Overall net income / Net patient revenue
How much money do hospitals make from ALL activities

Hospital Costs: How Do Hospitals Respond to Lower Prices?

- ▶ We examined what the Medicare Payment Advisory Commission (MedPAC) has said about the ability of hospitals to accept lower prices
- ▶ Hospital costs are **flexible and hospitals respond by lowering their costs**
 - ▶ “Hospitals under financial pressure tend to have lower costs. High pressure equals low cost. Low pressure equals high cost.”
 - ▶ “Costs do vary in response to financial pressure and low margins on Medicare patients can result from a high cost structure that has developed in reaction to high private payers rates.”
 - ▶ “Lack of pressure is more common in markets where a few providers dominate and have negotiating leverage over payers.”

Utah Hospital Analysis

	# Hospital	Median Operating Margin (1Q, 3Q)	Median Overall Margin (1Q, 3Q)
Utah	44	12.1% (1.8%, 21.3%) Ranking: #1	15.1% (7.7%, 22.8%) Ranking: #1
U.S	4,516	-2.6% (-11.6%, 5.6%)	3.6% (-2.7%, 10.6%)

Centers for Medicare and Medicaid Services (CMS) Medicare cost reports 2017

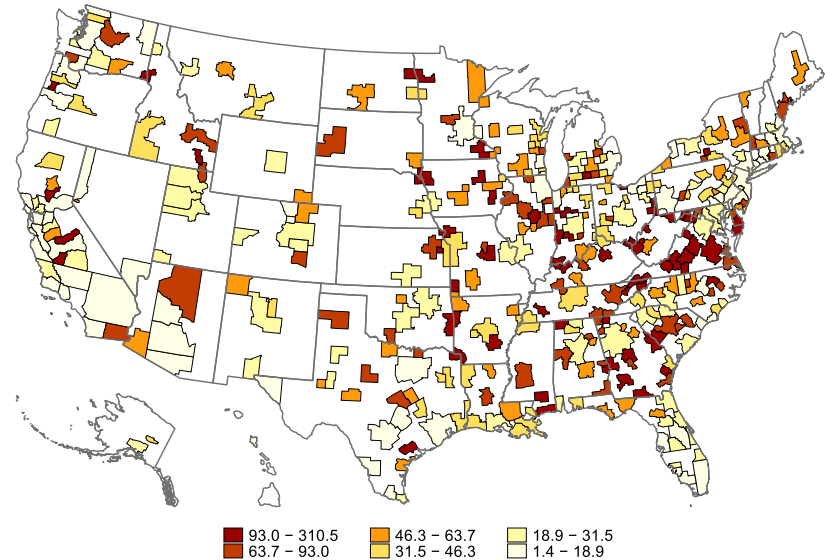
<https://www.cms.gov/Research-Statistics-Data-and-Systems/Downloadable-Public-Use-Files/Cost-Reports/>

https://atlasdata.dartmouth.edu/static/supp_research_data/

Part 3: Can Large Employers Take An Active Role in Negotiating Prices?

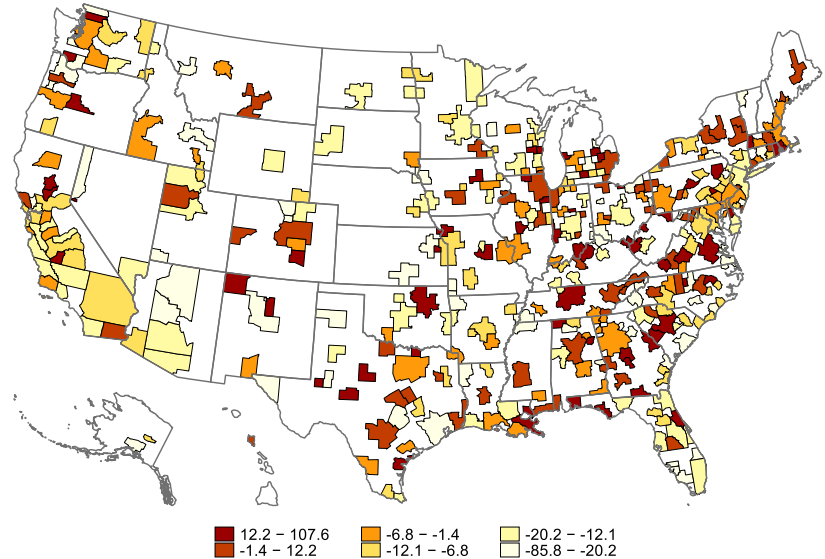
Employer Market Power (2016)

MSA	LMC
Logan, UT-ID	65.36
Ogden-Clearfield, UT	31.48
Provo-Orem, UT	25.92
St. George, UT	27.19
Salt Lake City, UT	19.50



Employer Market Power (% Change from 2010 to 2016)

MSA	LMC
Logan, UT-ID	-8.95
Ogden-Clearfield, UT	-13.21
Provo-Orem, UT	-18.08
St. George, UT	-36.29
Salt Lake City, UT	-0.47



Employer Market Power (Utah vs Neighboring States)

State	2016 Average EMP	2016 Weighted Average EMP	Min. 2016 EMP	Max. 2016 EMP	% Change in Weighted Average 2010 to 2016
Utah	33.89	24.94	19.50	65.36	-9.8
Arizona	29.79	7.28	3.52	71.07	-18.5
Nevada	26.89	10.30	7.94	57.78	-15.0

Policy Option: Help Employers Strengthen Their Position

▶ Purchase alliance

▶ Employers' Forum of Indiana

- Narrow network options
- Medicare price as starting point for negotiation

▶ Peak Health Alliance in Colorado

- Price and public employers and individual shoppers
- Estimated 20% price cut on hospitals